Affordable Acquisition

By

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[The following is a reprint of Gil Watters speech presented to the Third International Acquisition/Procurement Seminar-Pacific in Singapore, September 18, 2000. This conference was co-hosted by the U.S. Defense Systems Management College and Singapore's Defence Science and Technology Agency. Watters based his speech on information from a public discussion paper published by the Australian Department of Defense: *Defence Review 2000 - Our Future Defense Force*, June 2000.]

In reflecting on my previous presentations to earlier conferences I now realise that over the last three years I have made them in the wrong order starting with the specific and now focusing on the strategic. I will deliver today the presentation that I should have made at the start, because what I want to talk about today is the essential first step in all acquisition. I have titled my presentation *Affordable Acquisition*. It is about the process by which governments, as both the owner and customer, determine the sorts of defence forces that they require their materiel organisations to build to meet future challenges.

I am fortunate to have a case study. What I will use to assist me is the review of defence policy that is now occurring in Australia ahead of the release of a new Defence Policy Paper towards the end of this year.

The Australian government is conducting a fundamental review of its defence policy. Such reviews are published every three or four years, but a review of the current depth has not occurred since the mid 1980s. In the intervening decade and a half there have been fundamental changes in our strategic environment, increasing cost pressures on the defence organisation and important changes in military technology. The government has embarked on a new approach to making defence policy the government has decided that all Australians should have an opportunity to contribute their views on the important defence choices that we face. In the past, input into such cabinet level decisions had been confined to ministers and a select group of defence experts. The aim this time is to be more open about the business of making defence policy and for the Australian community that pays for defence to have its say. The government has set about to encourage a vigorous, challenging and constructive discussion.

On 27 June the Prime Minister and the Minister for Defence released a public discussion paper *Defence Review 2000 - Our Future Defence Force*. The discussion paper is being presented to the community by a team chaired by the Hon. Andrew Peacock, a former Minister for Foreign Affairs and ambassador to the United States, two retired senators, one from each of the main political parties, and the Chair of the Returned Services League's Defence Committee.

The discussion paper and consultation program being coordinated by Mr Peacock will play a valuable role in informing the community about our defence needs and assist the government in producing the Defence Policy Statement towards the end of this year. The review will focus on the big issues and the key choices that shape our military capabilities. It will take into account

financial and strategic realities. Given that there are limits to what any government can realistically afford to spend on defence, some difficult policy choices have to be made.

The discussion paper asks:

- What do we want our armed forces to be able to do?
- Where do we want our forces to be able to operate?
- What is the best way to structure the defence force?
- What is the best way to spend the defence budget?

In the remaining time that I have available I would like to rehearse with you some of the main themes of the discussion paper. While I am talking of the Australian experience, I am sure that the questions I have just posed are equally applicable to defence planning in other countries.

First, the strategic fundamentals, what is happening globally and in our region?

The discussion paper starts by questioning whether war is a thing of the past. I will deal with that quickly by observing that long-term trends in international affairs are making wars less likely, especially major wars between nations. While the international system works in many ways to reduce the risk of problems degenerating into wars, the discussion paper encourages us not to assume that major wars are passé. Whatever we think about the likelihood of wars between nations, there is no doubt that over the past few years the unique capabilities of armed forces have increasingly been used in operations other than war. This is a worldwide trend, and Australia's experience is typical.

In the fifteen years between 1972 and 1987, Australia's only substantial operational deployment overseas was to the Multinational Force and Observers in the Sinai. Between 1987 and 2000, we deployed to Fiji, Namibia, the Gulf, Somalia, Rwanda, the Western Sahara, Papua New Guinea including Bougainville, Cambodia, Indonesia (drought relief in Irian Jaya), and East Timor. In these places we have undertaken many different types of operations, including famine relief and other forms of humanitarian assistance, peacekeeping and combat operations. The pace of activity has been especially hectic in the last few years.

I know that other countries have shared our experience. Since the end of the Cold War, the range of tasks for which defence forces have been used has widened significantly, and the demands on their resources have increased. This reflects a growing willingness by governments of many countries to join collective action to address problems affecting the lives and welfare of people in distant parts of the world.

Some experts believe these trends constitute a major long-term change in the nature of warfare. Those who see a move away from large-scale wars between states suggest instead that the key tasks of armed forces in future will be a range of smaller scale operations, often against non-state adversaries. They include operations that do not necessarily involve direct conflict, such as peacekeeping, evacuations, and disaster relief.

Whether or not we believe that old-style wars have become a thing of the past, it is clear that lower-level military operations are going to be an important part of our future. It is likely that the Australian Defence Force will continue to be tasked for a wide range of demanding operations, as we have done over the past few years. This is the era of the come as you are crisis, whether anticipated or unforeseen.

Having addressed the strategic fundamentals, the next question is how to design our defence force. What do we want our defence force to be able to do? What defence capabilities do we need?

The aim of our defence planning is to select a set of capabilities that gives Australia the widest range of military options to support our strategic interests, at an affordable cost. For the defence of our own territory, we need air and naval capabilities that could deny our approaches to an adversary. For defence of our regional and global interests, we need capabilities that could contribute to a coalition with the particular circumstances deciding the nature of our contribution.

In planning our defence we start with the realisation that our defence force is only one part of Australia's wider approach to ensuring our security and prosperity. Our national security, including security from armed attack, depends in the first instance on the quality of our international relationships. Our foreign relations are, in this sense, the foundation of our national security.

Most importantly, it must be clear that Australia has a defence force determined and able to defend the country, so that we can deter any thought of attack. But it is also important to make sure we do not look threatening to others.

The discussion paper emphasised that Australia's security is closely tied to the stability and well being of our broader region. An unstable region would complicate our security by expanding the range of possible threats.

By contrast, a stable Asia-Pacific region where we can trade and cooperate with other countries will reinforce the peace. A return to economic growth in the Asia-Pacific is a positive development. But it also means that regional defence spending will start growing again.

In shaping our defence policy, no responsible Australian government could afford to plan on the basis of optimistic scenarios alone. The discussion paper highlights the need to develop policies and build a defence force that will serve us well in the widest range of eventualities.

The discussion paper concludes that we do not expect to be attacked by anyone and cannot readily foresee the circumstances under which an attack might occur, or where it might come from. Our defence planning is not based on any pre-existing threat. A fundamental decision is the weight that needs to be given in our defence planning to the remote possibility that our strategic circumstances could significantly change for the worse. If that were to happen, any Australian government would want options that gave it the best chance of ending conflict, quickly and decisively. The priority for quick resolution would favour a proactive, rather than a reactive, campaign.

This discussion on our strategic interests lends to some key choices for defence planning.

To keep defence spending affordable, considered risks and tough choices are required. I would like now to outline the main areas for those choices:

- Alliance versus self-reliance.
- Independent action versus coalition operations.
- Defending Australia versus regional commitments.
- Quality versus quantity. Current capability versus future capability.

What defence capabilities might we want?

In addressing these major issues the discussion paper examines the combination of military capabilities that give Australia the widest range of military options to support our strategic interests at affordable cost.

Capability and budget issues - how much does Australia spend on defence?

Throughout this presentation I have emphasised planning and setting the priorities. The level of defence funding is an important national choice. It needs to be balanced against other social objectives and priorities because any change in the level of defence funding affects the level of taxes or the amount of money available for other government programs. Defence receives about the same level of funding as education, but much less than health and social security.

Defence budgets are often expressed as a percentage of national wealth, or gross domestic product. Using this measure, funding for defence has declined from around 2.5 percent of gross domestic product in the mid 1980s to about 1.9 percent in 1999. This relative decline reflects the growth of the national economy at a time when defence spending has been kept relatively static. The use of gross domestic product alone can be useful for describing spending trends and making some international comparisons, but it is a poor indicator of how efficiently the money is spent. We need to take a closer look at how defence spends its budget.

Efforts to re-direct costs from the personnel area of the budget have been a hallmark of defence financial management strategies for nearly a quarter of a century. During the 1990s efficiencies worth hundreds of millions of dollars have been made from a range of reforms and put back into enhancing the combat force. These efficiency measures have helped to maintain military capability and increased readiness within a budget held constant in real terms.

The future defence force: what are the options?

Having looked at our strategic outlook, the capability choices that face us, and the resource environment, what are the options? There are three important areas in our defence spending that will influence future cost pressures. They involve judgements about the military capabilities we invest in, the number of people the Australian Defence Force should have and the priority the government puts on the tasks it wants the Australian Defence Force to be able to perform and the readiness levels required.

The trend towards increasing costs for military equipment is not new, nor is it confined to Australia. It is increasingly difficult to manage without real increases in the budget. One of the biggest challenges we face is managing the investment in a number of key capabilities over a relatively short period. As I mentioned briefly earlier, a number of our key warfighting capabilities will become technically unsupportable or no longer cost effective to maintain within a few years of each other. It may not be necessary to replace all the platforms the Australian Defence Force currently maintains, and the revolution in military affairs may present innovative capability solutions that could yield financial savings. So while we face replacement decisions, it is too early to be definitive about the total cost.

The high cost of recruiting, training and retaining our personnel will continue to present resource challenges to defence. The cost of recruiting, training and retaining our people accounts for a major slice of the defence budget. At present we spend in the order of 42 percent of our funds on personnel. This figure is not surprising. Our military capability is most critically dependent on our highly skilled and professional workforce. Personnel costs are rising each year despite a workforce considerably smaller now than a decade ago. Although there are now considerably fewer people employed in defence than a decade ago, the reductions have often been made at the lower skills end of the workforce and per capita costs have risen as a consequence.

The other major cost drive is readiness. While the immediate prospect of major war fighting operations is low, there is a prospect that the need to undertake lower level operations will add new and significant cost pressures because of the need for maintaining higher levels of readiness.

In examining these cost pressures the discussion paper concludes that if Australia is to maintain the current range of military capabilities, longer term funding would need to grow, at a rate higher than inflation. Some level of real growth would be required, at least after the scope for further efficiencies was exhausted.

The discussion paper that I have outlined for you today will raise the level of community understanding of the options. Public discussion and input is now underway. It will assist government in evaluating the options and making deliberate decisions about what is important to Australia's defence. That will depend on judgements about Australia's strategic environment and the likelihood of different contingencies occurring.

Few national activities are as consequential for a nation's long-term stability and prosperity. The planning required is extremely complex and the time frames defence strategists must consider are measured in decades rather than months. My presentation today leaves the big issues unanswered. The answers will be available when the policy paper is released towards the end of this year.

About the Author

Gil Watters entered the Commonwealth Public Service in 1973 after completing a commercial traineeship with BHP. He joined the Department of Defence in 1983 and has been a member of the Senior Executive Service since 1988. Prior to joining Defence, Gil worked in the Departments of Treasury, the Senate and the Department of Industry, and Commerce.

Watters has worked on acquisition issues for the last five years and currently occupies the position of Director General Acquisition Finance and Reporting in the Defence Materiel Organisation.

Previous SES level appointments in Defence have been in the Force Development and Analysis and International Policy Divisions. In 1990 and 1991, Gil worked as an exchange officer in the Office of the Assistant Secretary of Defence (Program Analysis and Evaluation) in the Pentagon.

On returning from the Pentagon in 1991, he worked on the Review of Higher Defence Management Arrangements. In 1996, he worked on capability development aspects of the Defence Efficiency Review.

Watters is a Fellow of the Australian College of Defence and Strategic Studies which he attended in 1995. He holds a Commerce degree with honors in economics and a post graduate qualification in Business Studies from the University of Newcastle. Watters is an Associate of the Australian Society of CPAs.